



ALEX HAGELI  
DIRECTOR, PERSONAL LINES POLICY

September 20, 2010

Ms. Pam Simpson  
National Association of Insurance Commissioners  
2301 McGee Street, Suite 800  
Kansas City, MO 64108

Dear Ms. Simpson:

On behalf of its members, the Property Casualty Insurers Association of America (PCI) respectfully submits the following comments in association with the NAIC Property and Casualty (C) Committee's public hearing on a proposed risk classification data call to be held on September 30th in Kansas City, Missouri. PCI is a national trade association representing over 1,000 insurers that provide insurance to policyholders in all property/casualty lines, with members writing 37.1 percent of property/casualty insurance nationwide.

We wish at the outset to convey our strong disagreement with the NAIC's development of this data call. Even if the results of the data call could produce an accurate assessment of the relative impact of credit and other rating factors on insurance premiums (and we do not for reasons explored below), to what end are insurers being asked to expend valuable man hours and resources to produce this information? The committee's stated justification for the data call is the need to develop a repository of information about the use of insurance scores for public policymakers, yet such a repository already exists in the form of numerous private and public studies on insurers' use of credit information. We do not feel the information garnered from this data call, even if it could be accurately aggregated, adds in any appreciable way to the existing body of studies. It certainly does not add enough to justify the massive expense insurers will incur in replying to the data call.

Furthermore, through regulation of the insurance market many jurisdictions have already collected substantial information about how insurers operating in their state use credit information. In many jurisdictions, this data call will result in significant work and expense for both insurers and regulators and is unlikely to reveal any additional meaningful information about the way insurers use credit-based insurance scores.

Our strenuous objection to the issuance of this data call notwithstanding, we have surveyed our membership and wish to convey to you their reaction to the draft. Our members find some of the information is readily available and easy to provide. Other questions will require considerable time and effort to obtain answers to, and some of the requested information is simply not available because it was never captured in the first place.

We have a number of questions and/or concerns regarding the operation of the data call. Before moving to specific concerns, we seek clarification as to whether those insurers that do not use credit-based insurance score or “new and innovative risk classifications and risk evaluation tools” will be exempt from the data call.

## **CONFIDENTIALITY**

An overriding concern we have with respect to the data call concerns confidentiality. Our members are highly concerned about the prospect of revealing their business model to competitors by disclosing what underwriting and rating factors they use and to what degree they use them. Insurance is a highly competitive industry, and companies expend a great deal of time and effort in order to distinguish themselves from their competitors.

We note the draft includes the statement, “All responses will be submitted to the issuing state and will be kept confidential to the extent allowed by state law.” Of course, the level of confidentiality afforded by state law varies considerably with the state. In a number of states, in fact, company responses to the data call will be considered public information.

It is for this reason we recommend including a statement in the data call advising any state that chooses to issue the data call to consider applying trade secret status to company responses. If trade secret status is unavailable, and if company responses to the data call will otherwise be made public, we recommend the NAIC advise any such state to refrain from issuing the call.

## **TABLE I**

We note at the outset that the information requested here is basically the information contained in a carrier’s underwriting guidelines, which in most states is readily available for the insurance department’s review. We question the need to for companies to expend valuable man hours to essentially resubmit data the state already has.

Our objection notwithstanding, we recommend expanding Table I so as to allow for the capture of additional relevant information. For example, with respect to credit-based insurance scoring, it may prove helpful to include additional space for carriers to indicate whether they place restrictions on their use of credit information on renewal, such as only if there is an improvement in a policyholder’s insurance score.

Information regarding the value and damageability of a vehicle is not always readily available. This may lead to a distortion relative to other values. We recommend deleting these categories.

## **TABLE II**

It is with respect to new and innovative risk factors that our concerns regarding confidentiality are most heightened. Because insurance is such a highly competitive industry, companies will and often do expend a great deal of time and effort in order to explore the development and/or use of new and innovative risk factors. In this way they are better able to distinguish themselves

in the marketplace from their competitors. Such innovation only benefits consumers through more accurate pricing of the insurance they buy.

Given the sensitivity of this area, and given previously expressed concerns regarding confidentiality, we suggest changing Table II to capture any and all rating factors not enumerated in Table I as one single composite factor. We recommend you take a similar approach with regard to these other rating factors in the following tables as well.

### **TABLE III**

We have a number of concerns with this table. The table appears to have been developed with the idea that each rating factor is a single, static constant relative to every other rating factor. This is not true, of course. For example, depending on the insurer, age can have up to and even more than 10 different values assigned to it. And, again depending on the insurer, the relative value assigned to age is most likely dependent on the values assigned to other rating factors. Such interconnectedness makes it extremely difficult to measure what the impact of any one particular rating factor is on overall premium in the absence of knowing what the other values are.

It is this difficulty with trying to measure the stable value of a necessarily unstable value that makes us question the utility of aggregating any submitted data. In a good faith effort to comply with the data call, different carriers may develop different methods for attempting to capture data not previously captured. Without clear guidance to all as to how to capture the requested information, any attempt to aggregate data may end up being a case of comparing apples and oranges and therefore of no utility to anyone.

Beyond the fundamental difficulties we see in providing this data, we request clarification as to what coverage(s) the information requested in Table III is sought. We would highlight for you the fact that different factors have different relativities for different coverage, and this reality will only add to potential distortion when attempting to aggregate all coverages. For example, insurance scoring may have a larger impact on the premium attributed to collision insurance than liability coverage. However, collision coverage may account for a smaller percentage of the overall premium of a particular policy than does liability coverage.

We also wish to highlight another concern with the table by simply asking, what should be included in the "median value" column with respect to factors such as gender or age?

### **TABLES IV & V**

Developing the information requested by these tables will prove incredibly difficult for our members. It is difficult enough to measure the relative weight of a rating factor in a sea of rating factors which are themselves to one degree or another relative to every other rating factor. This table will require carriers to essentially try to unwind premium calculations where premium calculations were never designed to be unwound. In order to populate this table, carriers will essentially have to develop new applications.

This represents an extraordinary burden on insurers, in particular smaller carriers for whom the development of necessary applications would represent an investment of significant resources. Also, as previously suggested, it is entirely likely that, in a good faith effort to provide data hereunder, different carriers will use different assumptions to capture data not previously captured.

## **ADDITIONAL INFORMATION**

### Question 1

Is this question asked in the context of how credit information is used? Or is it intended more generally?

### Question 3

Is it an acceptable answer to this question for insurers to cite the relevant state law provisions governing the provision of exceptions to the use of insurance scoring for extraordinary life circumstances?

### Question 4

Does the question seek to identify whether a foreclosure is considered in the calculation of an insurance score, or included in premium calculation separate and distinct from an insurance score? Or both? Also, does foreclosure refer to a particular consumer's foreclosure distinct and separate from insuring a particular piece of property, or is it intended to refer to a foreclosure on a particular house or property a policyholder is seeking to insure? Or both?

### Question 5

Is it an acceptable answer to this question for insurers to cite the relevant state law provisions governing insurers' use of credit information?

### Question 6

Is it an acceptable answer to this question for insurers to cite the relevant state law provisions governing re-underwriting and re-rating requirements when an insurer receives notice that the credit information of a current insured was incorrect or incomplete?

### Question 8

For those carriers who have used insurance scores for years, the answer to question 8(c) may simply be unknown. Is it an acceptable answer to state this?

### Question 12

Is it an acceptable answer to this question for insurers to cite the relevant state law provisions governing the treatment of no hits/thin files for those insureds who use credit information?

### Question 13

We question the inclusion of this question in that the making of a firm offer of insurance and terms thereunder are governed exclusively by the federal Fair Credit Reporting Act (FCRA). We question the need to gain information about a practice over which states exercise no authority.

### Question 16

For those companies who have used insurance scoring for many years, this information may not be available to them. Is it an acceptable answer to state this?

Also, what does “decline-to-quote refer to exactly? Where business is placed through agents, minimum records are maintained regarding the provision of quotes. Agents may simply decline to write someone with a particular company based on their own assessment of an applicant’s profile and instead refer the applicant to a different company. Also, an agent may submit a particular applicant multiple times to the same family of companies.

### Question 17

We would highlight for you the fact that different insurers use different ranges of scores. A 670 score with one carrier may not translate to the same score with another insurer.

We have always declined to answer questions about average scores or range of scores in testimony for precisely this reason. Without knowing what the scale is, a particular number is essentially useless. For this reason, any attempt to aggregate the requested data will prove problematic.

### Questions 21 & 22

What is intended to be the basis for measuring whether a consumer “received a premium increase” or “received a premium decrease?” Many companies calculate premium without identifying what the specific impact of credit is on premium, and as such do not have this information readily available to them.

We recommend providing additional instruction with this question, and recommend you include the instruction included with the survey conducted by the Arkansas Insurance Department for its annual survey regarding the impact of credit on premium. Those instructions read:

“...A helpful way of determining whether a policy’s premium was increased [or decreased] due to credit is to look at your neutral credit tier or factor and count all policies that paid a higher [or lower] credit related premium than that tier.”

PCI appreciates your consideration of our concerns with the data call. If you have any questions about any of our comments, please feel free to contact me at 847-553-3656 or [alex.hageli@pciaa.net](mailto:alex.hageli@pciaa.net).

Sincerely,

A handwritten signature in black ink, appearing to be 'Alex Hageli', written in a cursive style.

Alex Hageli